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SECURITIES AND EXCHANGE COMMISSION  
(Release No. 34-65635; File No. SR-CME-2011-15)

October 26, 2011

Self-Regulatory Organizations; Chicago Mercantile Exchange, Inc.; Notice of Filing and Order Granting Accelerated Approval of Proposed Rule Change to Amend its Rules Relating to Interest Rate Swaps Clearing

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act”),<sup>1</sup> and Rule 19b-4 thereunder,<sup>2</sup> notice is hereby given that on October 19, 2011, the Chicago Mercantile Exchange Inc. (“CME”) filed with the Securities and Exchange Commission (“Commission”) the proposed rule change described in Items I and II below, which items have been prepared primarily by CME. The Commission is publishing this Notice and Order to solicit comments on the proposed rule change from interested persons and to approve the proposed rule change on an accelerated basis.

I. Self-Regulatory Organization’s Statement of Terms of Substance of the Proposed Rule Change

The text of the proposed rule change is below. Italicized text indicates additions; bracketed text indicates deletions.

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**CHICAGO MERCANTILE EXCHANGE INC. RULEBOOK**

**Rule 100 – Rule 8G06 – No Change.**

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**Rule 8G07. IRS FINANCIAL SAFEGUARDS AND GUARANTY FUND DEPOSIT**

1. (i) The Clearing House shall establish a financial safeguards package to support IRS clearing,

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<sup>1</sup> 15 U.S.C. 78s(b)(1).

<sup>2</sup> 17 CFR 240.19b-4.

and each IRS Clearing Member shall make an IRS Guaranty Fund deposit with the Clearing House. An IRS Clearing Member's deposit to the IRS Guaranty Fund and assessments against it pursuant to these Rules may be used to cover losses incurred by the Clearing House if a defaulted IRS Clearing Member's assets, including amounts available pursuant to any guarantee from an Affiliate of an IRS Clearing Member, available to the Clearing House are insufficient to cover such loss, regardless of the cause of default. The Clearing House shall calculate the requirements for the IRS financial safeguards package, which shall be composed of:

(a) a funded portion, determined by the Clearing House using stress test methodology equal to the theoretical two largest IRS Clearing Member losses produced by such stress test or such other methodology determined by the IRS Risk Committee (such amount, plus any additional funds required to be deposited by IRS Clearing Members as a result of the minimum contribution requirement below, the "IRS Guaranty Fund"), and

(b) an unfunded portion, determined by the Clearing House using stress test methodology equal to the theoretical third and fourth largest IRS Clearing Member losses produced by such stress test (and assuming for purposes of the model that already-defaulted IRS Clearing Members will fail to contribute) or such other methodology determined by the IRS Risk Committee. Upon a default, after application of the IRS Guaranty Fund, each IRS Clearing Member (excluding any insolvent or defaulted IRS Clearing Member) shall be subject to assessment of its previously-assigned proportionate share of such amount (collectively the "IRS Assessments").

(ii) Each IRS Clearing Member's minimum contribution to the IRS Guaranty Fund shall be the

greater of:

(a) such IRS Clearing Member's proportionate share of the share of the theoretical two largest IRS Clearing Member losses described in paragraph (i) above, each clearing member's relative portion being based on the 90-day trailing average of its aggregate performance bond requirements and average gross notional open interest outstanding at the Clearing House (or such other shorter time interval determined by the IRS Risk Committee); or

(b) (x) \$50,000,000 for a non-Affiliated IRS Clearing Member or (y) \$25,000,000 for each Affiliated IRS Clearing Member, where one Affiliated IRS Clearing Member provides its primary clearing services for customers as a FCM with any proprietary business of such FCM only incidental to providing such clearing service for customers and the other Affiliated IRS Clearing Member only provides IRS clearing services through its proprietary account for itself and its Affiliates. An "Affiliated IRS Clearing Member" shall mean an IRS Clearing Member with an Affiliate that is also an IRS Clearing Member.

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**Rule 8G07(2) – End – No Change.**

II. Self-Regulatory Organization's Statement of Purpose of, and Statutory Basis for, the Proposed Rule Change

In its filing with the Commission, CME included statements concerning the purpose and basis for the proposed rule change and discussed any comments it received on the proposed rule change. The text of these statements may be examined at the places specified in Item III below. CME has prepared summaries, set forth in sections A, B, and C below, of the most significant

aspects of such statements.

A. Self-Regulatory Organization's Statement of Purpose of, and Statutory Basis for, the Proposed Rule Change

CME proposes to make certain rule changes that affect the minimum guaranty fund requirements for Interest Rate Swap (“IRS”) Clearing Members at CME. The text of current CME Rule 8G07 provides that the minimum guaranty fund requirement for an IRS Clearing Member is \$50,000,000. The proposed rule changes would amend Rule 8G07 to provide that, in instances where two separate IRS Clearing Members are affiliated, the minimum IRS Guaranty Fund requirement for each firm would be \$25,000,000. This proposed change would be subject to the condition that only one of the affiliated IRS Clearing Members provide IRS clearing services only through the IRS proprietary account, and the other affiliated IRS Clearing Member provides its primary clearing services for customers as a FCM with any proprietary business of such FCM only incidental to providing such clearing service for customers. Each of the affiliated IRS Clearing Members would be required independently to meet capital and other requirements of clearing membership as set forth in the CME Rules.

To accommodate the changes discussed above, CME would also make corresponding changes to its Manual of Operations for CME Cleared Interest Rate Swaps, including revisions to operational processing times and processes, IRS Guaranty Fund calculations and IRS assessments allocations and amendment to the default management auction process requiring only IRS Clearing Members with open positions in a currency to bid for a defaulted IRS Clearing Member's portfolio in such currency.

CME notes that it has also submitted the proposed rule changes that are the subject of this filing to its primary regulator, the Commodity Futures Trading Commission (“CFTC”). The text of the CME rule proposed amendments is in Section I above, with additions italicized and

deletions in brackets.

B. Self-Regulatory Organization's Statement on Burden on Competition

CME does not believe that the proposed rule change will have any impact, or impose any burden, on competition.

C. Self-Regulatory Organization's Statement on Comments on the Proposed Rule Change Received from Members, Participants, or Others

CME has not solicited, and does not intend to solicit, comments regarding this proposed rule change. CME has not received any unsolicited written comments from interested parties.

III. Solicitation of Comments

Interested persons are invited to submit written data, views and arguments concerning the foregoing, including whether the proposed rule change is consistent with the Act. Comments may be submitted by any of the following methods:

- Electronic comments may be submitted by using the Commission's Internet comment form (<http://www.sec.gov/rules/sro.shtml>), or send an e-mail to [rule-comments@sec.gov](mailto:rule-comments@sec.gov). Please include File No. SR-CME-2011-15 on the subject line.
- Paper comments should be sent in triplicate to Elizabeth M. Murphy, Secretary, Securities and Exchange Commission, 100 F Street, NE, Washington, D.C., 20549-1090.

All submissions should refer to File Number SR-CME-2011-15. This file number should be included on the subject line if e-mail is used. To help the Commission process and review your comments more efficiently, please use only one method. The Commission will post all comments on the Commission's Internet website (<http://www.sec.gov/rules/sro.shtml>). Copies of

the submission, all subsequent amendments, all written statements with respect to the proposed rule change that are filed with the Commission, and all written communications relating to the proposed rule change between the Commission and any person, other than those that may be withheld from the public in accordance with the provisions of 5 U.S.C. 552, will be available for website viewing and printing in the Commission's Public Reference Room, 100 F Street, NE, Washington, DC 20549 on official business days between the hours of 10:00 a.m. and 3:00 p.m. Copies of such filing also will be available for inspection and copying at the principal office of CME. All comments received will be posted without change; the Commission does not edit personal identifying information from submissions. You should submit only information that you wish to make available publicly. All submissions should refer to File Number SR-CME-2011-15 and should be submitted on or before [insert date 21 days from publication in the Federal Register].

IV. Commission's Findings and Order Granting Accelerated Approval of Proposed Rule Change

In its filing, CME requested that the Commission approve this request on an accelerated basis, for good cause shown. CME has articulated three reasons for granting this request on an accelerated basis. One, the products covered by this filing, and CME's operations as a derivatives clearing organization for such products, are regulated by the CFTC under the CEA. Two, the proposed rule changes relate solely to interest rate swap clearing and therefore relate solely to its swaps clearing activities and do not significantly relate to CME's functions as a clearing agency for security-based swaps. Three, not approving this request on an accelerated basis will have a significant impact on the swap clearing business of CME as a designated clearing organization.

Section 19(b) of the Act<sup>3</sup> directs the Commission to approve a proposed rule change of a self-regulatory organization if it finds that such proposed rule change is consistent with the requirements of the Act and the rules and regulations thereunder applicable to such organization. The Commission finds that the proposed rule change is consistent with the requirements of the Act, in particular the requirements of Section 17A of the Act,<sup>4</sup> and the rules and regulations thereunder applicable to CME. Specifically, the Commission finds that the proposed rule change is consistent with Section 17A(b)(3)(F) of the Act which requires, among other things, that the rules of a clearing agency be designed to promote the prompt and accurate clearance and settlement of derivative agreements, contracts, and transactions because it should allow CME to enhance its services in clearing interest rate swaps, thereby promoting the prompt and accurate clearance and settlement of derivative agreements, contracts, and transactions.<sup>5</sup>

The Commission finds good cause for accelerating approval because: (i) the proposed rule change does not significantly affect any securities clearing operations of the clearing agency (whether in existence or contemplated by its rules) or any related rights or obligations of the clearing agency or persons using such service; (ii) CME has indicated that not providing accelerated approval would have a significant impact on the swap clearing business of CME as a designated clearing organization; and (iii) the activity relating to the non-security clearing operations of the clearing agency for which the clearing agency is seeking approval is subject to

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<sup>3</sup> 15 U.S.C. 78s(b).

<sup>4</sup> 15 U.S.C. 78q-1. In approving this proposed rule change, the Commission has considered the proposed rule's impact on efficiency, competition, and capital formation. 15 U.S.C. 78c(f).

<sup>5</sup> 15 U.S.C. 78q-1(b)(3)(F).

regulation by another regulator.

V. Conclusion

IT IS THEREFORE ORDERED, pursuant to Section 19(b)(2)<sup>6</sup> of the Act, that the proposed rule change (SR-CME-2011-15) is approved on an accelerated basis.

For the Commission by the Division of Trading and Markets, pursuant to delegated authority.<sup>7</sup>

Kevin M. O'Neill  
Deputy Secretary

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<sup>6</sup> 15 U.S.C. 78s(b)(2).

<sup>7</sup> 17 CFR 200.30-3(a)(12).